

## Message Text

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SUBJECT: EPC'S WORKING PARTY 3 MEETING, NOVEMBER 4-5 1975

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1. SUMMARY: REVIEW OF BALANCE OF PAYMENTS EXPECTATIONS OF NATIONAL  
AUTHORITIES INVOLVED FEW SIGNIFICANT DIFFERENCES WITH OECD  
SECRETARIAT FOR 1975 BUT SEVERAL IMPORTANT DIFFERENCES IN OUTLOOK  
FOR 1976 WHICH IMPLY SOMEWHAT LARGER CURRENT ACCOUNT DEFICIT FOR

GROUP AND GREATER IMPROVEMENT IN POSITIONS OF LDC'S AS US AND OTHER ECONOMIES RESUME GROWTH. BRITISH AND DUTCH EXPRESSED GRAVE CONCERN OVER LDC PLIGHT, WITH US SUGGESTING THAT ALTHOUGH SITUATION ADMITTEDLY VERY SERIOUS FOR SOME COUNTRIES WP SHOULD EXAMINE SITUATION THOROUGHLY AND NOT OVERREACT. SEVERAL COUNTRIES THOUGHT NEW YORK SITUATION HAD DISRUPTED MARKETS AND DEPRESSED DOLLAR ALTHOUGH GERMANS SAW LITTLE EFFECT ON THEIR MARKETS AND U.S. SAW LITTLE JUSTIFICATION FOR CONCERN. EXCHANGE RATE DISCUSSION PRODUCED FAMILIAR FRENCH-US DISAGREEMENT AND FAMILIAR ARGUMENTS. CONSIDERABLE SENTIMENT EXPRESSED THAT WHILE INTEREST RATE DIFFERENTIALS AFFECTED RATES IN SHORT-TERM, UNDERLYING FACTORS DOMINATED OVER LONGER TERM. WITH EXCEPTION OF FRENCH AND JAPANESE MOST REPS SUPPORTED SECRETARIAT WORK ON MEDIUM-TERM BALANCE OF PAYMENTS TRENDS, ALTHOUGH MANY QUESTIONED SPECIFIC PROJECTIONS AND EXPRESSED DOUBTS ABOUT POLICY CONCLUSIONS. INTERNATIONAL LIQUIDITY PAPER WAS SHARPLY CRITICIZED BY US AND UK BECAUSE OF NARROW FOCUS ON OFFICIAL RESERVES AND INADEQUATE RECOGNITION OF ROLE OF OPEN NATIONAL MONEY MARKETS. NEXT MEETING EXPECTED BE IN FEBRUARY. END SUMMARY.

2. CURRENT BALANCES: (ALL FIGURES IN BILLIONS OF DOLLARS (BD)). US, FRG, BELGIUM ESTIMATED SLIGHTLY SMALLER CURRENT ACCOUNT SURPLUSES IN 1975 THAN SECRETARIAT WHILE ITALIANS EXPECTED SMALL SURPLUS RATHER THAN DEFICIT. FOR 1976, DELEGATION COMMENTS IMPLIED SMALLER SURPLUSES FOR US AND PERHAPS FRG; LARGER DEFICIT FOR FRANCE BUT PERHAPS SMALLER DEFICITS FOR JAPAN AND CANADA; AND SLIGHT SURPLUS FOR ITALY. SUMMARIZING DISCUSSION, CHAIRMAN EMMINGER NOTED THAT TRADE EXPANSION IN 1976 EXPORTS TO OPEC EXPECTED CONTINUE TO GROW. TOTAL OECD DEFICIT MIGHT BE SEVERAL BD HIGHER THAN 13 BD FORECAST BY SECRETARIAT. FRG AND JAPAN EXPECTED SOMEWHAT HIGHER RATE OF RECOVERY THAN SUGGESTED BY SECRETARIAT. AGGREGATE DEFICIT OF SMALLER OECD COUNTRIES WAS EXPECTED TO REMAIN AT LEVEL OF AROUND 15 BD, SUGGESTING THAT THESE COUNTRIES WERE LAGGING THE CYCLE, THAT NOT MUCH PRESSURE HAS BEEN PUT ON THEM FOR ADJUSTMENT AND THAT THEY HAVE NOT HAD SIGNIFICANT PROBLEM IN FINANCING THEIR DEFICITS. SEVERAL DELEGATES FELT THAT LIMITED OFFICIAL USE  
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THERE WAS CONSIDERABLE UNDERLYING STRENGTH IN MARKET POSITION OF US DOLLAR, AND THAT INTEREST RATE DIFFERENTIAL IN FAVOR OF DOLLAR MAY BE LONGER RUN PHENOMENON (US REP EXPRESSED RESERVATIONS). CONSENSUS WAS THAT WHILE MONETARY CONDITIONS CLEARLY HAVE A STRONG EFFECT ON THE EXCHANGE RATE, UNDERLYING COMPETITIVE POSITIONS BASIC OVER LONGER TERM.

3. US: IN RESPONSE TO CHAIRMAN'S QUERY AS TO REASONS FOR SHARP DIVERGENCE OF US POSITION FROM EARLIER ESTIMATES, US REP (WIDMAN) ATTRIBUTED LARGE SWINGS OVER PAST SEVERAL YEARS TO COMBINATION OF FACTORS: (1) SHARP INCREASES IN 1973 IN PRICES OF AGRICULTURAL PRODUCTS WHICH US EXPORTED AND, IN 1974, OF OIL WHICH US IMPORTED;

(2) CYCLICAL FACTORS, WITH US DOWNTURN LEADING THAT OF MAJOR FOREIGN PARTNERS AND US TRADE PERFORMANCE BEING EXCEPTIONALLY SENSITIVE TO RELATIVE DEGREES OF CAPACITY UTILIZATION; (3) LARGE INVENTORY BUILDUP IN 1974 FOLLOWED BY INVENTORY REDUCTION IN 1975; (4) LAGGED EFFECT OF 1971 AND 1973 EXCHANGE RATE CHANGES WHICH HAD BEEN FULLY FELT ONLY AFTER SLACK HAD APPEARED IN WORLD ECONOMY; AND (5) TECHNOLOGICAL DEVELOPMENTS. TRADE BALANCE HAD NOW BEGUN TO SHIFT AND WOULD PROBABLY MOVE INTO DEFICIT IN COURSE OF 1976 WITH ONLY SMALL SURPLUS FOR CALENDAR YEAR UNLESS EUROPE EXPANDED FASTER THAN EXPECTED. CHAIRMAN SUGGESTED THAT IF US CURRENT ACCOUNT DETERIORATED BY 10 BD AS US PROJECTED THERE WOULD BE SIGNIFICANT IMPROVEMENT IN OTHER COUNTRIES' PAYMENTS POSITIONS IN 1976. CANADIANS ACKNOWLEDGED THEIR COUNTRY LIKELY BE BENEFICIARY OF SUCH SWING.

4. FRG REP (POEHL) ESTIMATED 1975 CURRENT ACCOUNT BALANCE AT APPROXIMATELY 4.5 BD RATHER THAN OECD ESTIMATE OF 5.5 BD BUT, SURPRISINGLY, AGREED WITH SECRETARIAT PROJECTIONS OF 3.5 BD SURPLUS FOR 1976 DESPITE EXPECTATIONS REAL GROWTH OF 4 TO 6 PERCENT IN 1976 VS SECRETARIAT ASSUMPTION OF 1.6 PERCENT REAL GROWTH. INCREASED VOLUME OF GERMAN IMPORTS DESPITE RECESSION REFLECTED STABILITY OF DOMESTIC DEMAND - THAT IS, GNP DECLINE HAD BEEN MOSTLY DUE TO DECLINE IN EXPORTS AND DELAYED EFFECT OF APPRECIATION OF DM. JUNZ (US) NOTED THAT FRG HAD NOT HAD LARGE INVENTORY SHAKEOUT, AND FAY (SECRETARIAT) NOTED ADVERSE EFFECT ON GERMAN EXPORTS OF CYCLICAL CONDITIONS ABROAD DUE TO HEAVY GERMAN CONCENTRATION ON CAPITAL GOODS EXPORTS.

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5. ITALIAN REP (PALUMBO) CONSIDERED RECOVERY OF TRADE BALANCE REMARKABLE AGAINST BACKGROUND OF SHRINKING WORLD DEMAND, BUT PRECARIOUS, REFLECTING LARGELY CYCLICAL DECLINE IN IMPORTS - NOT STRENGTHS IN EXPORTS. ITALIANS COUNTED ON UPTURN IN FRG ECONOMY AND SUBSTANTIAL INCREASE IN EXPORTS TO OPEC COUNTRIES TO PRESERVE SATISFACTORY POSITION AS ITALIAN ECONOMY REVIVED.

6. JAPANESE (YOSHIDA) OBSERVED, UNOFFICIALLY, THAT DEFICIT FOR 1976 FORECAST BY SECRETARIAT MIGHT BE ON HIGH SIDE DESPITE SECRETARIAT'S SOMEWHAT LOWER ESTIMATE FOR DOMESTIC GROWTH. EXPECTED DEFICIT TO BE RUNNING AT RATE OF 1.5 BD IN FIRST QUARTER.

7. UK (MITCHELL) SAID LITTLE, SUGGESTING UK FORECASTS NOT FAR FROM FIGURES GIVEN BY SECRETARIAT, TAKING OPTIMISTIC VIEW OF FINANCING OF STILL SUBSTANTIAL DEFICIT, PARTICULARLY IN VIEW OF LIKELY POSITIVE EFFECTS ON CAPITAL INFLOW OF RECENT ANTI-INFLATIONARY STEPS. HE AVOIDED COMMENT ON CHAIRMAN'S QUERY RE WITHDRAWAL OF STERLING BALANCES BY OPEC.

8. FRENCH (DE LAROSIERE) EXPECTED DEFICIT IN 1976 ON THE ORDER OF

3 BD, REFLECTING FASTER GNP GROWTH (ABOVE 4 1/2 PERCENT AS COMPARED TO 2 1/2 PERCENT SECRETARIAT ESTIMATE) AND INVENTORY RESTOCKING AS CONTRASTED TO 1975 STOCK DEPLETION.

9. TRADE AND LDCS: AFTER SECRETARIAT DESCRIBED PROSPECT IN SOMEWHAT ALARMIST TERMS, POINTING OUT THAT EXTERNAL DEMAND FROM NON-OIL LDCS WOULD PROBABLY BE FARILY WEAK, WIDMAN CAUTIONED WP AGAINST GOING "OVERBOARD" IN CONCERN FOR NON-OIL LDCS PROBLEM. SITUATION VARIED WIDELY AMONG COUNTRIES AND IN SOME CASES WAS VERY SERIOUS. NON-OIL LDCS HAD, HOWEVER, BEEN ABLE TO OBTAIN SUBSTANTIAL FINANCING AND HAD HAD VERY LITTLE LOSS OF RESERVES SO FAR. SOME MIGHT RETRENCH IN PREFERENCE TO FURTHER DEBT ACCUMULATION. THOSE WHICH REMAINED CREDITWORTHY SEEMED ABLE TO OBTAIN FINANCING, AND NEED OF COUNTRIES WHICH UNABLE OBTAIN CREDIT FROM EXISTING SOURCES WAS FOR CONCESSIONAL ASSISTANCE. US REVIVAL OF IMPORT DEMAND SHOULD HELP LDCS CONSIDERABLY. UK AND DUTCH REPS, ON OTHER HAND, THOUGHT SERIOUSNESS OF PROBLEM FOR NON-OIL LDCS BEING UNDERESTIMATED. THEY EXPRESSED PARTICULAR CONCERN WITH UNSUSTAINABILITY OF GROWING INDEBTEDNESS. IMF REP (SCHWARTZ) NOTED THAT IMF WAS ATTEMPTING TO GET BETTER INFORMATION ON INDIVIDUAL LDCS.

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(IN ITS FORECASTS SECRETARIAT HAD GENERALLY ASSUMED STABLE SVAINGS RATIONS EXCEPT FOR US, GERMANY AND JAPAN. YEO COMMENTED THAT DEPLETED REAL LIQUIDITY POSITIONS IN PRIVATE SEVTOR HAD NOW LARGELY BEEN RESTORED BY HIGHER SAVINGS: THEREFORE, HE FELT, ONE COULD EXPECT RESTORATION OF MORE USUAL SAVINGS RATES).

10. EXCHANGES RATES: CHAIRMAN QUESTIONED WHETHER "WEAKNESS" OF DOLLAR WAS ONLY TEMPORARY INTERRUPTION OF CYCLICAL TREND AND WHETHER RECENT RATES OF EXCHANGE NOW REFLECTED PROPERLY UNDERLYING COMPETITIVE POSITION OF VARIOUS COUNTRIES. US REP (YEO) EXPRESSED VIEW THAT DOLLAR HAD BENEFITTED BOTH FROM UNDERLYING FACTORS AND TRANSITORY FACTORS. INTEREST RATE SPREAD WAS PARTLY TRANSITORY. US INTEREST RATES HAD BEEN INFLUENCED NOT ONLY BE MONETARY POLICY BUT BY CHANGES IN MARKET SENTIMENT. HE THOUGHT RECENT MOVEMENT OF DOLLAR WAS PROBABLY NOT PART OF LONGER TERM TREND BUT, TATHER, TRANSITORY PHENOMENON REFLECTING FACT THAT US HAD BEGUN ITS RECOVERY EARLIER. THERE HAD, OF COURSE, BEEN GREAT IMPORVEMENT IN UNDERLYING COMPETIVENESS FROM LAMENTABLE SITUATION IN 1960'S. YEO THOUGHT NEW YORK CITY HAD PLAYED ONLY A SMALL ROLE IN RECNET ADJUSTMENTS AND DOUBTED THAT IT HAD SIGNIFICANTLY AFFECTED PERFORMANCE OF THE DOLLAR.

11. HAY (SWITZERLAND) ARGUED THAT EXCHANGE MARKETS HAD BEEN CONSIDERABLY AFFECTED BY NEW YORK SITUATION. SWISS WERE CONCERNED WITH RECENT EASING IN US INTEREST RATES, FEARING SPECULATION AND MASSIVE CAPITAL FLOWS. THESE PROBLEMS SEEMED TO STEM IN LARGE PART FROM UNCONTROLLED NATURE OF PRIVATE AND OFFICIAL INTERNATIONAL LIQUIDITY. MCMAHON (UK) ALSO EXPRESSED

CONCERN ABOUT IMPACT OF NEW YORK SITUATION, WHILE CHAIRMAN SAID  
THAT NEW YORK PROBLEM DID NOT APPEAR TO HAVE DISTURBED GERMAN MARKETS

12. DE LAROSIERE PLAYED FAMILIAR FRENCH THEME RE LARGE FLUCTUATIONS  
IN EXCHANGE RATES, CHARGING THAT MOVEMENTS, PARTICULARLY BETWEEN  
DOLLAR AND EUROPEAN CURRENCY, DID NOT REFLECT FUNDAMENTAL  
ECONOMIC DEVELOPMENTS. HE LABELLED US SURPLUS MAJOR CAUSE OF WORLD  
DISEQUILIBRIUM, AND INCONSISTENT WITH DOLLAR WEAKNESS. EXCHANGE  
RATE CHANGES HAD BEEN CAUSED BY MONETARY FACTORS, INCLUDING WIDER  
FLUCTUATIONS OF INTEREST RATES IN MONEY MARKETS. IMPACT OF NEW YORK  
PERHAPS EXAGGERATED, BUT PSYCHOLOGICAL EFFECT WAS GREAT, SHAKING  
CONFIDENCE IN US FINANCIAL INSTITUTIONS AS A RESULT. LARGE EXPANSION  
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OF INTERNATIONAL LIQUIDITY HAD MAGNIFIED IMPACT OF OTHER EFFECTS.  
FLOATING EXCHANGE RATES MIGHT BE SAID TO MAKE MONETARY POLICY MORE  
AUTONOMOUS, BUT THEY CANNOT BE EXPECTED TO ABSORB THE FULL  
IMPACT OF WIDE FLUCTUATIONS IN MONETARY POLICY. FURTHERMORE  
AUTONOMY NOT DESIRABLE. NON-DOLLAR COUNTRIES SHOULD NOT HAVE TO  
WATCH HELPLESSLY WHILE THEIR CURRENCIES WERE DEVALUED. THROUGH  
CONCERTED ACTION IT WAS POSSIBLE TO STABILIZE CURRENCY VALUES  
TO PREVENT DOLLAR DEPRECIATION AND TO CONTROL INTERNATIONAL  
LIQUIDITY. DUTCH REP (OORT) QUESTIONED FRENCH REP'S EMPHASIS ON  
UNCOVERED INTEREST RATE DIFFERENTIALS AND SPOT  
EXCHANGE RATES, SUGGESTING THAT COVERED INTEREST RATE DIFFERENTIALS  
WERE MUCH MORE STABLE AND ECONOMICALLY MORE  
IMPORTANT.

13. YEO RESPONDED WITH THOROUGH REVIEW OF NEW YORK  
FINANCIAL SITUATION. HE CAREFULLY EXPLAINED SOURCES OF  
PROBLEM, OPTIONS AVAILABLE TO NEW YORK, LIMITED IMPACT ON  
US BANKING SYSTEM, AND GENERAL SITUATION US CREDIT  
MARKETS. ONE USEFUL IMPACT HAD BEEN TO STRENGTHEN ALREADY  
EXISTING TREND TOWARD UPGRADING QUALITY OF SECURITIES AND  
TO PRODUCE GOOD DEAL MORE SELECTIVITY ON PART OF INVESTORS.  
HE SHARED DESIRE FOR STABILITY BUT DIFFERED IN WAY IN WHICH  
IT COULD BE BEST ACHIEVED. ONLY PRACTICAL WAY OF ACHIEVING EXCHANGE  
RATE STABILITY WOULD BE THROUGH INCREASING UNDERLYING ECONOMIC  
STABILITY. CHAIRMAN AGREED THAT INTEREST RATES MIGHT HAVE TO GO  
DOWN IN US TO AID THE RECOVERY AND THEREFORE CYCLICAL EFFECTS ON  
EXCHANGE MARKETS MIGHT CHANGE QUICKLY. SHIFTS IN DESTINATION OF  
SURPLUS OIL MONEY WAS ANOTHER FACTOR CAUSING INSTABILITY IN  
RATES; DESPITE POSSIBLE DISTURBING EFFECTS ON EXCHANGE RATES,  
HE WONDERED HOW SUCH UNDERLYING CHANGES COULD POSSIBLY HAVE  
BEEN ACCOMMODATED WITH FIXED RATES. GERMANS HAD  
HAD BITTER EXPERIENCE IN THIS CONNECTION, WITH THEIR  
MONETARY POLICY RUINED.

14. OUTLOOK FOR CURRENT BALANCES: CHAIRMAN NOTED THAT  
WP HAD FOUND IT DIFFICULT IF NOT IMPOSSIBLE TO QUANTIFY

BALANCE OF PAYMENTS AIMS. IN REF C SECRETARIAT HAD TRIED  
TO MAKE MEDIUM-TERM PROJECTIONS SO AS TO EVALUATION THESE  
POSITIONS AND OBTAIN COUNTRY REACTIONS, DROPPING CONCEPT  
OF CYCLICALLY ADJUSTED BALANCE OF PAYMENTS AND SUBSTITUTING A  
REASONABLE GUESS AT COUNTRY POSITIONS TWO TO THREE YEARS FROM NOW.  
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15. MOST DELEGATIONS (WITH IMPORTANT EXCEPTIONS OF FRENCH  
AND JAPANESE) EXPRESSED VIEW THAT SECRETARIAT EXERCISE WAS  
USEFUL ALTHOUGH VIEWS ON ACCEPTABILITY, FROM POLICY STANDPOINT,  
OF OUTCOME FOR INDIVIDUAL COUNTRIES DIFFERED. MOST ALSO WISHED TO  
HAVE ASSUMPTIONS AND TECHNICAL ANALYSIS EXPLAINED MORE FULLY.  
UK REP NOTED THAT UNDERLYING ASSUMPTION FOR UK GROWTH WOULD LEAVE  
UNEMPLOYMENT UNACCEPTABLY HIGH. YEO INDICATED US INTEREST IN  
PARTICIPATING IN PROCESS OF MAKING SUCH PROJECTIONS. HE NOTED  
DIFFERENCES IN ASSUMPTIONS ON ELASTICITIES COULD BE QUITE SIGNIFICANT.

HE FELT THAT RESULTS FOR US WERE NOT LIKELY TO BE REALIZED.  
CANADIAN REP (NEUFELD) NOTED THAT VERY LARGE CANADIAN DEFICIT  
HAD BEEN PROJECTED; HOWEVER, THERE WAS NO BASIS FOR JUDGING  
WHETHER THIS WAS GOOD OR BAD RESULT. POEHL THOUGHT RESULTS FOR  
FRG WERE QUITE POSITIVE BUT DID NOT NECESSARILY JUSTIFY NEED FOR  
FURTHER ADJUSTMENTS IN VIEW OF GERMAN PRO-  
PENSITY TO EXPORT CAPITAL. JAPANESE WERE SKEPTICAL OF  
RESULTS AND NOTED CRITERIA FOR ESTIMATING SUSTAINABILITY WERE  
DIFFICULT TO OBTAIN. BELGIAN REP (VAN YPERSELE) NOTED THAT BENEFITS  
OF RECOVERY IN MAJOR COUNTRIES WERE NOT SUFFICIENT TO  
RELIEVE DEFICITS OF SMALLER OECD COUNTRIES. SOLOMON (US) QUESTIONED  
WHETHER OVERALL OECD DEFICIT WOULD BE CONTRACTED AS RAPIDLY  
AS HAD BEEN ASSUMED BY THE SECRETARIAT. CHAIRMAN SUGGESTED WORK  
BE CONTINUED WITH FURTHER ATTENTION TO UNDERLYING ASSUMPTIONS,  
EXCHANGE RATE PROBLEMS AND SUSTAINABILITY OF POSITIONS SHOWN.

16. INTERNATIONAL LIQUIDITY: WP DEVOTED ONLY LIMITED TIME  
TO SECRETARIAT PAPER ON INTERNATIONAL LIQUIDITY (REF D).  
CHAIRMAN DREW ATTENTION TO VIEWS EXPRESSED IN RECENT SPEECH BY  
IMF MANAGING DIRECTOR. FAY NOTED THAT THE SECRETARIAT'S  
FOCUS WAS ON FUTURE, NOT ON SOURCES OR DESIRABILITY OF PAST  
LIQUIDITY CREATION. MAJOR QUESTIONS WERE THOSE SUCH AS WISDOM  
OF RELYING ON EUROMARKETS FOR LIQUIDITY CREATION. MCMAHON SUGGESTED  
THAT AGGREGATE LIQUIDITY WAS DOUBTFUL CONCEPT, INVOLVING FALSE  
ANALOGY WITH DOMESTIC MONEY SUPPLY. DOUBTS ABOUT SIGNIFICANCE OF  
SIMPLE MEASURES OF INTERNATIONAL LIQUIDITY WERE STRONGER NOW  
WITH FLOATING EXCHANGE RATES. THEREFORE, HE FELT IT  
BETTER TO FOCUS ON SUCH QUESTIONS AS : (A) EFFECT OF RECENT  
INTERNATIONAL ECONOMIC NEGOTIATIONS, (B) IMPACT OF CREDIT  
CREATION FOR EUROMARKETS AND (C) PACE OF WORLD ADJUSTMENT  
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PROCESS, ESPECIALLY IN NON-OIL LDCS AND SMALL OECD COUNTRIES.

17. WIDMAN ALSO EXPRESSED VIEW THAT SECRETARIAT PAPER HAD FOCUSED ON EXCESSIVELY NARROW DEFINITION OF INTERNATIONAL LIQUIDITY, SINCE STOCK OF OFFICIAL RESERVES IS ONLY SMALL PORTION OF RELEVANT TOTAL. OTHER FACTORS, INCLUDING EASE OF BORROWING, OFFICIAL CREDIT INSTITUTIONS AND HIGHLY DEVELOPED WORLD MONEY MARKETS, WERE ALL VITAL PARTS OF ANY ADEQUATE ANALYSIS. WITH REGARD TO EURO-CURRENCY MARKET, HE NOTED THAT REAL QUESTION WAS NOT AVAILABILITY OF EUROCURRENCY MARKET PER SE, WHERE CREDIT CREATION PROBABLY MUCH LESS THAN SOMETIMES ASSUMED, BUT GENERAL ABILITY TO BORROW ABROAD, WHETHER IN NATIONAL OR OFFSHORE MARKETS. QUESTION OF CONTROL WAS WHETHER NATIONS WISHED TO INSIST UPON SEVERE AND COMPREHENSIVE EXCHANGE CONTROLS -- WHICH, IF EFFECTIVE, WOULD SPELL DISASTER FOR WORLD TRADE AND ECONOMIC COOPERATION. HE NOTED THAT IN EARLY 1974 CONCERN HAD BEEN THAT MEANS OF FINANCING OIL DEFICITS WOULD BE INSUFFICIENT AND SUGGESTED IT WAS AVAILABILITY OF EXTENSIVE CREDIT WHICH HAD PREVENTED EVEN MORE SEVERE RETRENCHMENT AND RESTRICTIONS. FURTHER DISCUSSION OF SUBJECT SHOULD START FROM MUCH BROADER BASE.

18. NEXT MEETING: CHAIRMAN SUGGESTED THREE SPECIFIC ITEMS FOR DISCUSSION AT NEXT WP3 MEETING: (1) REVISED MEDIUM-TERM BALANCE OF PAYMENTS PROJECTIONS, (2) FURTHER DISCUSSION OF INTERNATIONAL LIQUIDITY, KEEPING IN MIND POINTS RAISED BY US AND UK REPS, AND (3) USUAL DISCUSSION OF CURRENT BALANCE OF PAYMENTS DEVELOPMENTS AND EXCHANGE RATES. HE ALSO THOUGHT IT WOULD BE USEFUL TO DEVOTE MORE TIME TO EXPLORATION OF IMPACT ON EXCHANGE RATES OF INTEREST RATES DIFFERENTIALS. DATE OF NEXT MEETING WAS LEFT OPEN, WITH EARLIER POSSIBLE DATE BEING SOMETIME IN FEBRUARY 1976. KISSINGER

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